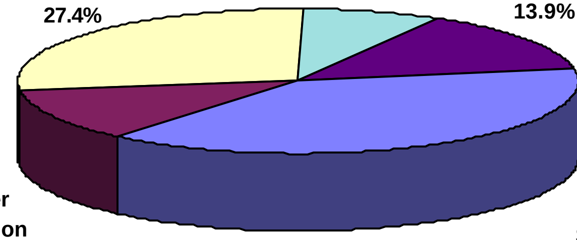
K - 12 Education Largest Share of GRF, LPEF, & Local Government Fund Spending

Percentages of FY 2004-2005 GRF, LPEF, & Local Government Fund Spending



State Spending from GRF, LPEF, and Local Government Funds
(in millions)

	1996-1997	1998-1999	2000-2001	2002-2003	2004-2005*
Primary & Secondary	$9,947.0	$11,654.4	$13,300.1	$15,147.5	$16,104.5
Higher Education	$4,087.7	$4,510.3	$4,951.5	$4,867.1	$4,881.4
Human Services	$7,361.5	$8,093.5	$8,835.6	$9,984.7	$11,321.2
Corrections	$2,265.6	$2,670.6	$3,085.7	$3,176.5	$3,303.2
Other	$4,592.8	$5,104.6	$5,836.5	$5,732.6	$5,752.9

* 2005 spending amounts approximated by appropriations as of August 31, 2004

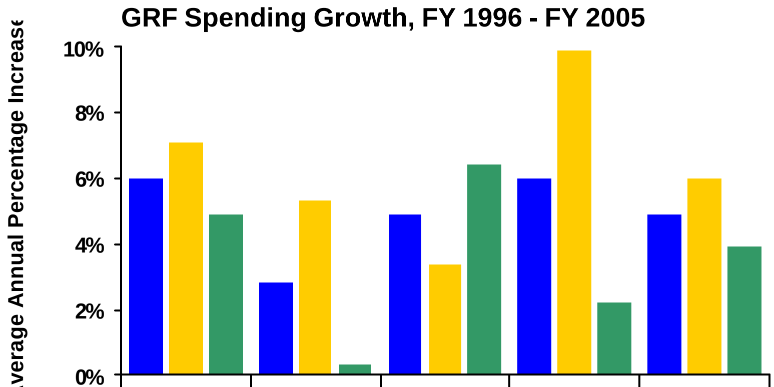
- State expenditures from the General Revenue Fund (GRF), the Lottery Profits Education Fund (LPEF), and the local government funds have grown 46.4% since the 1996-1997 biennium, from $28,254.6 million in FY 1996-1997 to $41,363.4 million in FY 2004-2005.

- Growth rates in expenditures for the major categories from the FY 2002-2003 biennium to the FY 2004-2005 biennium are: Primary and Secondary (K-12) Education, 6.3%; Higher Education, 0.3%; Human Services, 13.4%; Corrections, 4.0%; and Other, 0.4%.

- The shares of the FY 2004-2005 biennial budget allocated to each of the major spending areas have changed since the FY 1996-1997 biennium by the following amounts: Primary and Secondary Education, 3.73% increase; Higher Education, 2.67% decrease; Human Services, 1.32% increase; Corrections, 0.03% decrease; and Other, 2.35% decrease.

- In the FY 2004-2005 biennium, K-12 Education and Higher Education together account for 51% of the entire state budget.

Spending Growth Varies across Program Areas and Years

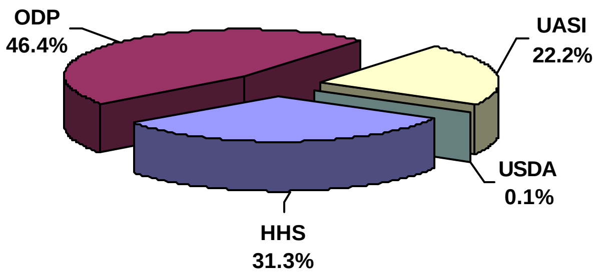


	Primary & Secondary	Higher Education	Human Services	Corrections	Total GRF
FY 1996-2005	6.0%	2.8%	4.9%	6.0%	4.9%
FY 1996-2000	7.1%	5.3%	3.4%	9.9%	6.0%
FY 2001-2005	4.9%	0.3%	6.4%	2.2%	3.9%

- Over the ten years encompassing actual FY 1996 expenditures through FY 2005 appropriations, total General Revenue Fund (GRF) spending grew at an average annual rate of 4.9%.
- Rates of spending growth differed sharply between the FY 1996-2000 period (the last five years of the 1990's economic expansion) and the FY 2001-2005 period (the recession and subsequent recovery). In the FY 1996-2000 period, annual spending growth averaged 6.0%. In the FY 2001-2005 period, annual spending growth averaged 3.9%.
- In the FY 1996-2000 period, the fastest growing spending areas were corrections and primary and secondary education. The growth in corrections spending reflects the cost of building and operating a relatively large prison system, in combination with a dramatic expansion in community corrections programs.
- In the FY 2001-2005 period, the fastest growing spending areas were human services and primary and secondary education. The growth in human services spending is primarily attributable to growth in Medicaid caseloads and increasing health care costs paid by Medicaid.

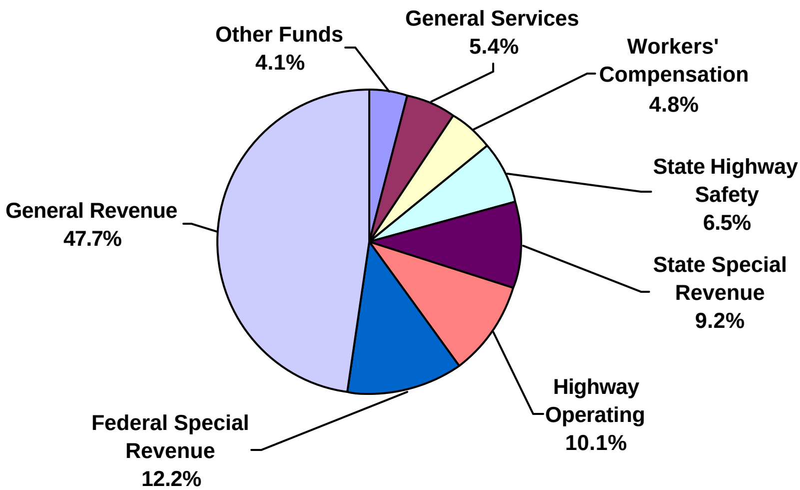
Federal Government Awards $147 Million in Homeland Security Grants

FY 2004 Federal Homeland Security Funding, by Funding Source



- In federal FY 2004, the federal government awarded $147.1 million in Homeland Security grants for the state of Ohio. The grants have been awarded by the Office of Domestic Preparedness (ODP) of the U.S. Department of Homeland Security (DHS), the U.S. Department of Health and Human Services (HHS), and the U.S. Department of Agriculture (USDA).
- $46 million has been awarded from HHS to help fight bioterrorism. This grant will focus on preparedness and planning, surveillance and epidemiology, biological laboratory capacity, the Health Alert Network, risk communication and health information dissemination, and education and training. Money will also be used to help hospitals coordinate mass care response in the event of a biologic event.
- $68.2 million has been awarded by the ODP as part of the Homeland Security Grant Program. This grant is comprised of three individual grants: the State Homeland Security Program, the Law Enforcement Terrorism Prevention Program, and the Citizen Corps Program. All three of these programs enhance state and local preparedness and prevention activities.
- $32.7 million has been awarded by the ODP as part of the Urban Area Security Initiative (UASI) Grant Program. These funds go to the three largest urban areas in Ohio (Hamilton, Franklin, and Cuyahoga counties) to enhance the overall security and preparedness efforts in those areas.
- $156,900 has been awarded by the USDA to establish a network of diagnostic labs to strengthen state capabilities to respond to animal disease emergencies, to provide surveillance for animal disease, and to improve capabilities to detect animal and plant diseases.

FY 2004 Funding Sources for State Payroll Costs

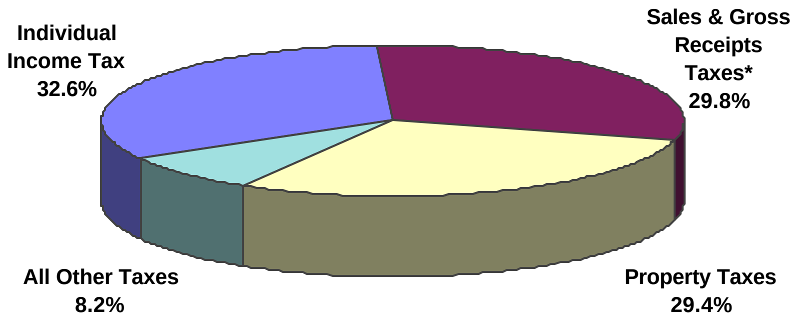


GRF Accounts for Nearly Half of State Payroll Costs

- Total FY 2004 state payroll was $3.84 billion for all state funds. Payroll covered by the General Revenue Fund (GRF) amounted to 47.7% of total state payroll, or $1.83 billion. This proportion has remained fairly constant since FY 1998.
- Earned wages and overtime, which represent the largest share of payroll costs, totaled $2.43 billion in FY 2004. This category includes wages for work performed, but not vacation and sick leave.
- The cost of employee benefits — such as retirement contributions, health, vision, and dental care, life insurance, and other fringe benefits — represents the second-largest portion of payroll costs, amounting to $884.6 million in FY 2004.
- From June 1998 to June 2004, the number of employees on the state payroll declined from 61,795 to 59,937, a 3.0% decline. Most of this decline occurred during FY 2002, especially among the corrections agencies.
- These figures include full-time and part-time permanent employees of cabinet agencies, elected officials' offices, and employees of boards and commissions appointed by the Governor. Not included in this count are employees of colleges and universities and the Ohio Turnpike.

Ohio's State and Local Taxes Balanced Among Income, Sales, and Property

Ohio Combined State & Local Tax Revenues
FY 2002



* Sales and gross receipts taxes include general state and local sales tax and excise taxes on specific products like tobacco, alcohol, motor fuels, and utility services.

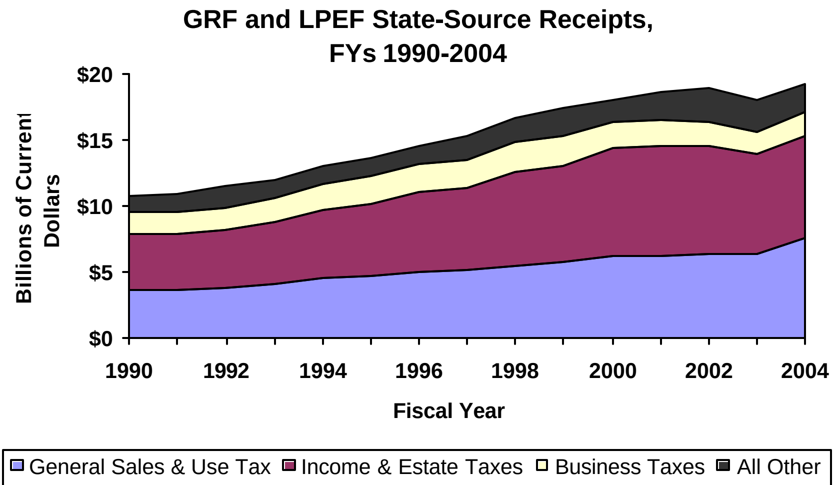
- Ohio, like most other states, relies on the "Big 3" of property taxes, income taxes, and consumption taxes. In comparison with other states, Ohio's tax system relies more heavily on the individual income tax, and somewhat less heavily on the property tax and on consumption taxes (and "other" taxes like the corporation franchise tax).

- State taxes accounted for 55.7% of combined state and local tax revenue in FY 2002. State taxes accounted for 70.7% of revenue from individual income taxes, 86.6% of revenue from sales and gross receipts taxes, and 82.6% of revenue from "other" taxes. Local taxes accounted for 99.8% of revenue from property taxes.

- For state taxes, 46.3% of tax revenue came from sales and gross receipts taxes, 41.4% from the individual income tax, 12.2% from "other" taxes, and 0.1% from taxes classified as property taxes.

- For local taxes, 66.3% of tax revenue came from property taxes, 21.6% from individual income taxes, 9.0% from sales and gross receipts taxes, and 3.2% from "other" taxes.

GRF State-Source Receipts Dominated by the Income Tax and the General Sales Tax



- In FY 2004, total state General Revenue Fund (GRF) receipts (excluding federal grants) and net profits from lottery ticket sales amounted to $19.2 billion. The personal income tax ($7.8 billion) and the general sales and use tax ($7.5 billion) were the most important revenue sources in FY 2004, accounting for 79.8% of receipts.
- Over time, the largest contributors to the "other" category have been transfers to the Lottery Profits Education Fund (LPEF) and transfers from the Income Tax Reduction Fund (ITRF), the Budget Stabilization Fund (BSF), and the Tobacco Master Settlement Agreement Fund (TMSAF) to the state GRF. In FY 2003 and FY 2004, transfers to the LPEF were $673.5 million and $648.1 million, respectively. There were no transfers from the ITRF in the last two years. Transfers from the TMSAF were $279.3 million in FY 2003 and $236.1 million in FY 2004. Transfers made from the BSF to the GRF were $115.4 million in FY 2003 and $0 in FY 2004.
- From FY 1990 to FY 2004, state-source GRF and LPEF receipts increased at a compounded annual growth rate of 4.2%. Inflation-adjusted growth over the period was 1.5% compounded annually. Ohio personal income grew at an annual compounded rate of 4.1% between 1990 and 2003.
- With the growth in the sales tax and the income tax, the relative importance of the "business taxes" – the corporation franchise tax, the public utility taxes, and the insurance taxes – has declined. These sources were over 16.1% of state-source GRF and LPEF receipts in FY 1990; they were only 9.4% in FY 2004.

Tax Burden Comparisons

Combined State and Local Taxes

FY 2002	Taxes as % Of Income	Rank*	Taxes Per Capita	Rank*
National Average	10.2		$3,149	
Ohio	**10.9**	**8**	**3,170**	**18**
Neighboring States				
Indiana	9.8	30	2,759	29
Kentucky	10.3	17	2,636	37
Michigan	10.2	19	3,051	22
Pennsylvania	9.8	32	3,052	21
West Virginia	10.8	9	2,571	40

*Highest to lowest.

- Ohio's FY 2002 combined state and local tax burden, measured by taxes per capita ($3,170) and taxes as a percentage of personal income (10.9%), was higher than both the national average and those of its neighbors.
- Ohio's burden from state taxes is at or below the national average and its burden from local taxes exceeds the national average.
- For FY 2002, Ohio's state taxes were $1,764 per capita while local taxes were $1,405 per capita. U.S. averages were $1,862 for state taxes and $1,286 for local taxes.
- For FY 2002, Ohio's state taxes were 6.0% of personal income and local taxes were 4.8% of personal income. U.S. averages were 6.0% for state taxes and 4.2% for local taxes.
- In FY 2002, New York had the highest per capita combined state and local tax burden at $4,645, while Alabama had the lowest at $2,170.
- New York had the highest level of taxes as a percentage of personal income at 13.0%, and Tennessee had the lowest at 8.1%.

Ohio Taxes Higher than National Average And Neighbors in FY 2002

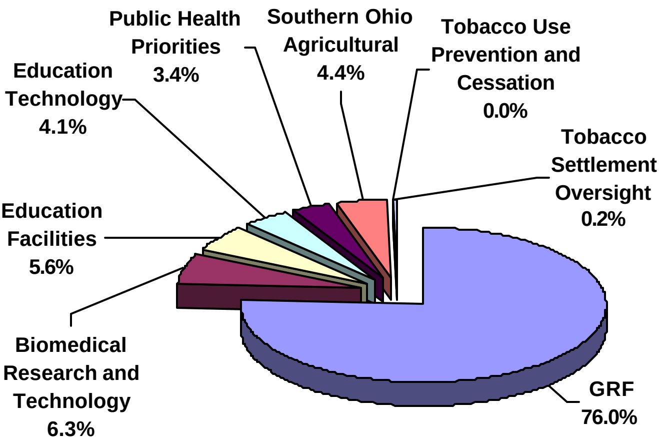
Combined State and Local Taxes As a Percentage of Income, FY 2002

	OH	U.S.	IN	PA	MI	KY	WV
Total Taxes	**10.9%**	**10.2%**	**9.8%**	**9.8%**	**10.2%**	**10.3%**	**10.8%**
Individual Income	3.5%	2.3%	2.4%	2.5%	2.2%	3.4%	2.4%
Property Tax	3.2%	3.1%	3.5%	2.8%	3.3%	1.9%	2.1%
Sales & Gross Receipts	3.2%	3.6%	3.2%	2.9%	3.4%	3.8%	4.6%
General Sales	2.3%	2.5%	2.2%	2.0%	2.6%	2.2%	2.2%
Selective Sales	0.9%	1.1%	1.0%	1.0%	0.8%	1.6%	2.4%
Motor Fuel Sales	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%	0.7%
Alcoholic Beverages	0.0%	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%
Tobacco	0.1%	0.1%	0.1%	0.1%	0.2%	0.0%	0.1%
Public Utility	0.2%	0.2%	0.0%	0.2%	0.0%	0.2%	0.5%
Other Sales	0.1%	0.4%	0.5%	0.2%	0.2%	0.9%	1.1%
Corporate Income	0.2%	0.3%	0.4%	0.3%	0.7%	0.3%	0.5%
Licenses	0.5%	0.4%	0.2%	0.5%	0.4%	0.5%	0.4%
Other Taxes	0.2%	0.4%	0.2%	0.7%	0.2%	0.5%	0.8%

- Ohio's combined state and local taxes as a percentage of income are higher than the U.S. average and those of its five neighbors.
- Ohio has low to average sales taxes and property taxes. However, Ohio's individual income tax stands out as being high relative to the U.S. average and relative to all its neighbors.
- Personal income growth in Ohio has lagged that of the U.S. and its neighbors, except for Michigan, between 1999 and 2002. This has increased this measure of tax burden for Ohio relative to the U.S. and its neighbors.
- Ohio's graduated income tax is more progressive (that is, the tax rate on higher incomes is greater than the tax rate on lower incomes) than in most other states. This makes Ohio's system relatively evenly balanced between income, sales, and property taxes.

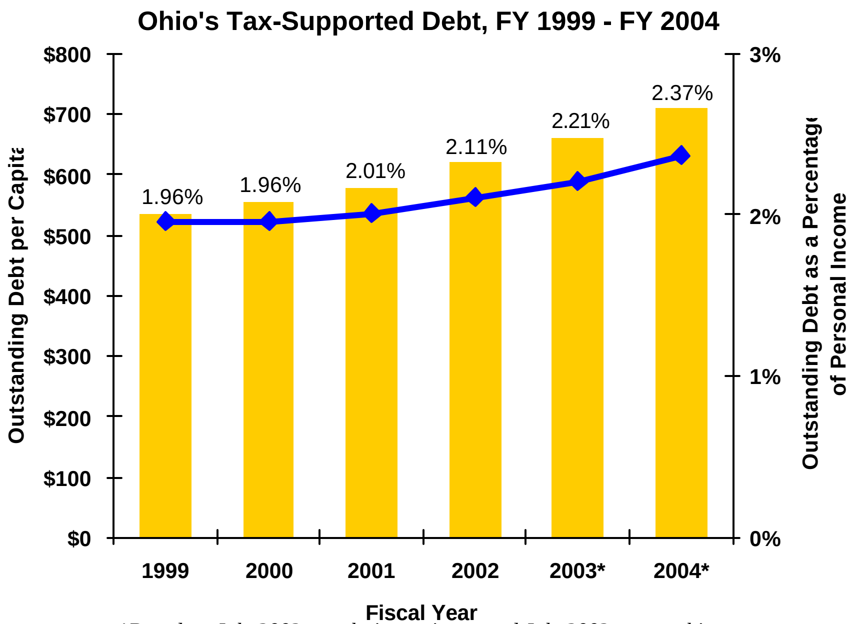
Most Tobacco Settlement Revenue Transferred to General Revenue Fund in FY 2004

Distribution of Tobacco Revenue in FY 2004



- In November 1998, 46 states, five U.S. territories, and the District of Columbia signed the Tobacco Master Settlement Agreement (MSA) with the United States' largest tobacco manufacturers. Florida, Minnesota, Mississippi and Texas settled separately. Under the terms of the MSA, Ohio was originally projected to receive approximately $10.1 billion through 2025.
- Through FY 2004, Ohio has received a total of $1.786 billion in MSA revenue. The Office of Budget and Management estimates that Ohio will receive $290.9 million in FY 2005.
- Distribution of tobacco revenue is specified in section 183.02 of the Revised Code. However, over the past few years the General Assembly has authorized the transfer of a total of $806.1 million in tobacco settlement revenue to the General Revenue Fund.
- The following state agencies and foundations receive MSA dollars: Departments of Health, Alcohol and Drug Addiction Services, Public Safety, Development, and Taxation; Commission on Minority Health; School Facilities Commission; Ohio SchoolNet Commission; Attorney General's Office; the Southern Ohio Agricultural and Community Development Foundation; and the Tobacco Use Prevention and Control Foundation.

Ohio’s Tax-Supported Debt



*Based on July 2003 population estimate and July 2003 personal income.

- Ohio’s tax-supported debt is made up of general obligation (GO) debt and special obligation (SO) debt. As of July 1, 2004, the outstanding GO and SO debt payable from the state's GRF totaled $8.1 billion. GO debt outstanding totaled $4.4 billion and SO debt outstanding totaled $3.7 billion.

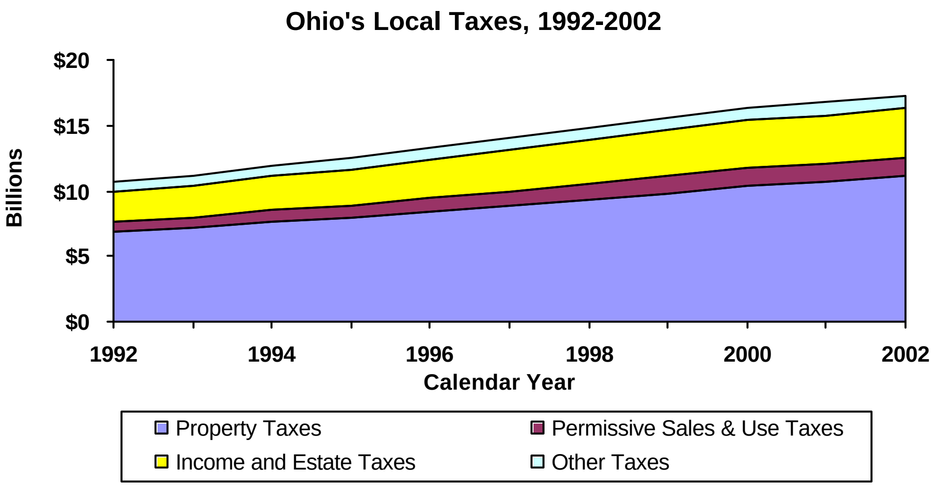
- Outstanding debt per capita has grown by 33% between FY 1999 and FY 2004. Overall, Ohio ranked 33rd in debt per capita in 2001 (ranking is from highest debt per capita to lowest). As a percentage of personal income, though, outstanding debt has barely changed over this period.

- GO debt has been authorized by 17 constitutional amendments, mainly for the financing of capital facilities, and is backed by the state’s full faith and credit. Debt service payments are guaranteed by the pledge of taxes or excises.

- SO debt is authorized for specified purposes by Section 2i of Article VIII of the Ohio Constitution, and debt service payments are subject to biennial appropriations by the General Assembly.

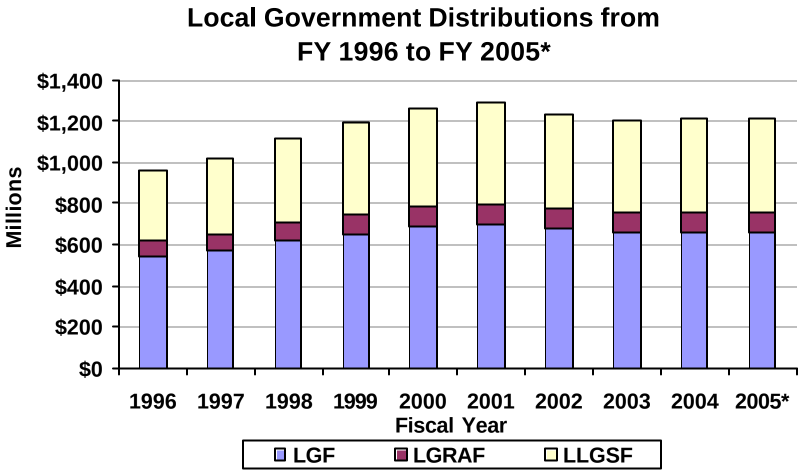
- At the end of FY 2004, Ohio GO bonds were rated AA+ by Fitch, Aa1 by Moody’s, and AA+ by S & P — the three major rating agencies.

Local Property Taxes Continue To Be a Dependable Source of Revenue



- In 2002, $17.3 billion in local taxes were collected in Ohio. Property taxes yielded $11.2 billion. Combined income and estate taxes generated $3.8 billion. Sales and use taxes yielded $1.4 billion. Other taxes (alcohol, cigarette, lodging, motor vehicle fuel, and motor vehicle license) generated $979 million.
- From FY 1992 to FY 2002, total local tax revenue grew at an average of 6.2% annually. Growth in property tax revenue was moderate, averaging 6.3% annually. Sales tax revenues grew at a more rapid 8.5% annual rate. The income and estate taxes grew at 6.6% and all other taxes grew an average of 2.2% annually
- In the last two years, local tax revenue grew at a slower rate, averaging 2.7% annually. Property taxes grew 3.9% annually, sales taxes grew 1.4%, and income taxes grew 0.6%. Other taxes were flat.
- Over the ten-year period from FY 1992 to FY 2002, the relative importance of the property tax increased slightly from 64.3% of local revenue to 64.7%. Sales and use taxes grew from 6.9% of revenue to 7.9%. The income tax grew from 21.3% of revenue to 21.8%. Other taxes decreased in relative importance, from 7.5% to 5.7%.

State-Shared Revenue Supports Local Governments



*** 2005 spending amounts approximated by appropriations as of August 31, 2004**

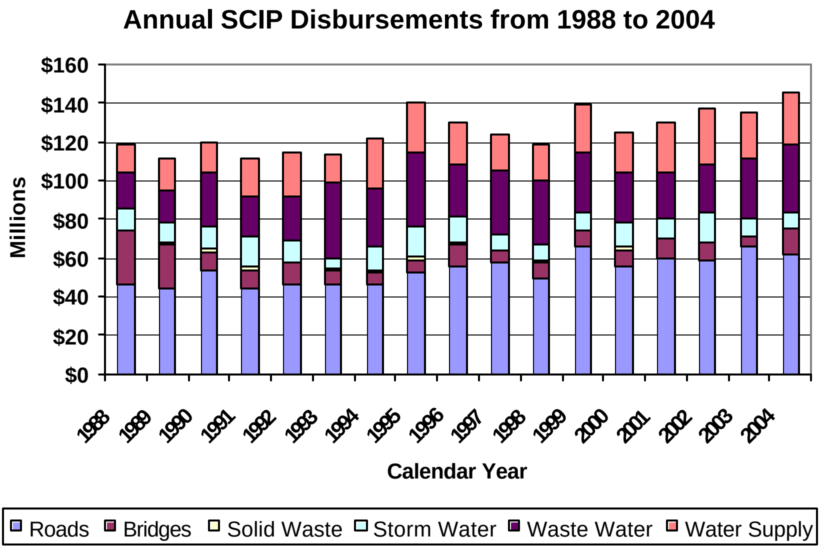
- Over the past five fiscal years, local governments and libraries have received more than $6 billion in state-shared revenue: $3.3 billion from the state Local Government Fund (LGF), $480 million from the Local Government Revenue Assistance Fund (LGRAF), and $2.3 billion from the Library and Local Government Support Fund (LLGSF).

- In CY 2002, approximately $719.4 million was distributed to Ohio's local governments from the LGF and LGRAF. Of that total, $378.6 million was distributed to municipalities, over $261 million went to counties, over $66 million went to townships, and the remaining went to certain park districts. Local libraries in 88 counties in Ohio received $457.7 million from the LLGSF in CY 2002.

- The ultimate disposition of LGF and LGRAF money for CY 2002 resulted in Ohio's municipalities receiving about 53% of total money disbursed, counties receiving 36%, townships receiving 9%, and park districts receiving about 2%.

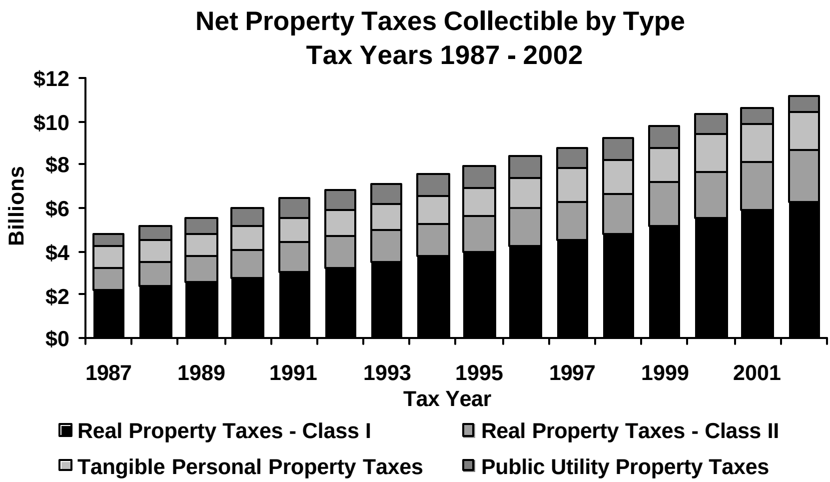
- Recent state operating budgets have included "temporary adjustments to local government distributions." Under these "freezes" tax receipts that would otherwise have been credited to the local funds are instead credited to the GRF. The effect of the freezes can be seen in the chart above. After growing through FY 2001, distributions were reduced in FYs 2002 and 2003 and have remained at the FY 2003 level for FYs 2004 and 2005.

State Capital Improvements Program – "Issue 2"



- A total of $145 million was disbursed to support local government infrastructure construction under the State Capital Improvements Program in 2004. More than half of the money went to cities ($79 million), followed by counties ($33 million), villages ($20 million), townships ($9 million), and water districts ($3 million). In 2004, 67% of the program's disbursements were grants.
- From 1988 to 2004 SCIP disbursed a total of $2.1 billion in program funds.
- The state can incur a total debt of $2.4 billion over the life of the program. This equates to $120 million in bonds being issued each year over 20 years. If the full $120 million in bonding authority is not used in a particular year the unused authority can be added to a bond sale in a later year. The General Revenue Fund (GRF) is used to pay the debt service on these bonds. Bonding authority under SCIP will expire in FY 2007 under current law.
- SCIP was created by a constitutional amendment in 1987 that allows the state to issue bonds to provide grants, loans, and credit enhancements for various infrastructure projects. Such projects may involve roadways, bridges, solid waste, storm water, and wastewater systems. The Ohio Public Works Commission (PWC) administers the program.
- Projects are ranked and recommended locally by one of 19 district public works integrating committees. The PWC then determines which projects will receive funding and uses the SCIP funds to reimburse political subdivisions for project costs.

Taxes on Real Estate Have Grown Faster than Other Types of Property Taxes



Percentage Growth in Property Taxes Levied, 1987-2002

	Real Property Class I	Real Property Class II	Tangible Personal Property	Public Utility Property	Total Property Taxes
Overall	181.3	136.7	83.3	21.6	132.0
Average Annual Increase	7.1	5.9	4.1	1.3	5.8

- Taxes on real property in Ohio increased 168% or 6.8% per year on average from 1987 to 2002, more than on other classes of property. Increases in taxes have averaged 7.1% per year on residential and agricultural (Class I) real property and 5.9% per year on all other (Class II) real property.
- Approximately two-thirds of all property taxes go to Ohio's local school districts, with the rest going to other political subdivisions.
- The assessment rate for tangible personal property used in Ohio businesses was 25% of true value in tax year 2002, except for inventories which were assessed at 24% in that year and at 23% in tax years 2003 and 2004. Under current law, the tax on inventories will be phased out no later than 2018.
- Taxes charged (levied) on real property exceed net taxes collectible by a 10% rollback for all taxpayers, a 2.5% rollback on owner-occupied homes, and a homestead exemption for elderly and disabled homeowners. The state GRF reimburses local governments for these amounts. The first $10,000 of business tangible property is exempt from tax, and reimbursement of these forgone taxes to local governments from the state GRF is being phased out over ten years.